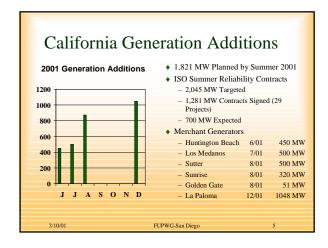
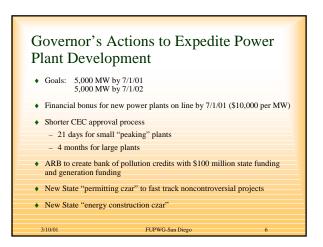


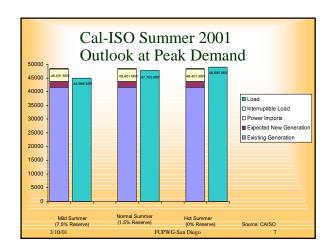
Overview • Factors leading to the California energy crises • Impacts to utilities and reliability • Recent Government and Legislative actions • What should Energy Managers do

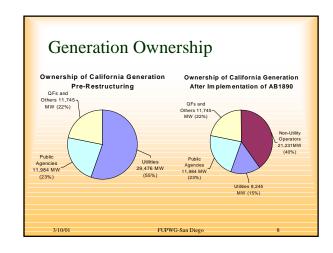
Key Factors Leading To Crisis • Divestiture of utility generation Transfer of control from State to Federal jurisdiction Reliance on the spot market - Utilities required to buy from PX and ISO Bilateral contracts restricted by CPUC until it was too late · Double digit load growth in California Record high gas prices · Exercise of market power by non-utility generators Inaction by FERC Despite deeming prices "unjust and unreasonable," FERC fails to allow meaningful price controls ♦ Late response by CPUC and Governor Davis Sustained high prices Refusal to end rate freeze and adopt new stabilized rates SCE and PG&E on the edge of bankruptcy

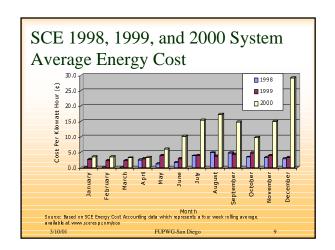
Generation Supply Issues Uncertain new generation additions by this summer Power imports continue to decrease California generators are selling out of state Higher forced outage levels Generator outages planned for NOx emissions control modifications Hydro energy limitations Natural gas supply uncertainty State procured long-term supply contracts

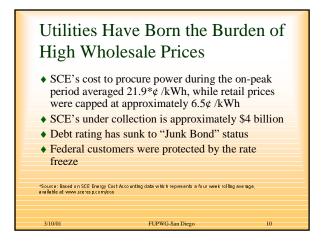


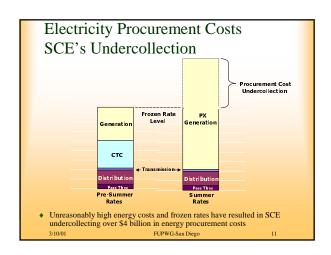












FERC Findings and Proposals to Fix the California Market Finding • Prices charged by generators and marketers are unjust and unreasonable Proposals • IOUs no longer required to buy from or sell into the California Power Exchange • Implementation of a temporary two-year "soft cap" on generation sales set at \$150/mWh • Deferred consideration of retroactive refund issues • Market participants must schedule 95% of all transactions into the day-ahead markets • Restructure Cal-ISO Board of Directors

Principles For Market Recovery

- · New generation supplies and adequate transmission
- Long term bilateral contracts for the majority of the power used in the State
- · Stable, cost-based pricing for customers
- ♦ Conservation and energy efficiency
- Comprehensive legislation

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Rotating Outages are a Possibility This Summer

- ♦ Essential customers are not normally affected
- ♦ SCE is given 15 minutes to drop load
- ◆ Interrupted circuits vary through-out the service territory
- The ISO is forecasting shortages of supply this summer

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Recent Government Actions

- ♦ Governor's Executive orders
 - January 17, 2001 authorizes California Department of Water Resources (CDWR) to buy power on the spot market
 - February 01, 2001 implements emergency conservation measures
 - February 2 & 5 seized SCE and PGE bilateral contracts from the PX to preserve low cost power for California consumers
 - February 8 Streamlined permitting process for new generation
- ♦ Significant legislation
 - ABx1-1 Authorizes approximately \$10 billion bond issue for DWR to purchase power through long term contracts.
 - purchase power through long term contracts

 ABx1-5 Restructures governing boards of the ISO
 - SBx1-6 Requires SCE, PG&E, and SDG&E to retain their existing generation assets
- Federal Government
 - February 07, 2001 Department of Energy's order to require gas and electric power producers to sell to California expired.

electric power producers to sen to camorina expired.

Governor's Framework for Restoration of Utility Solvency

- ♦ The Governor's framework (continued):
 - EIX to transfer approximately \$420 million in 2000 taxes to SCE
 - Governor to support legislation which ensures that a dedicated rate component is set at a level which will allow Edison to issue bonds to recover a substantial portion of the its energy procurement debt
 - Governor to request California Public Utilities
 Commission to support the creditworthiness of SCE
 - Edison will agree to dismiss its lawsuit in federal court against the CPUC

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Governor's Framework for Restoration of Utility Solvency

- On February 23, 2001, the Governor announced the framework of a plan to restore utility solvency
- The Governor's framework includes:
 - Sale of SCE's transmission system to the State of California
 - SCE to provide electricity at cost-based rates for its retained generation for ten years
 - Edison International's commitment to provide the cost-based rates for at least ten years for the output of a non-regulated power project under construction to the State of California
 - Commitments, through conservation easements, watershed property owned by Edison

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SCE's Response to Governor's Announcement

- Feb. 23, 2001, SCE confirmed it has reached a preliminary agreement with the governor
- ◆ The company's transmission grid is included,
- ♦ SCE will be protected from further procurement liability
- ♦ An agreement is not yet final
- The approval of important details in support of the principles and approval by the company's board of directors is required
- SCE followed this course of action because it is in the interest of our ratepayers, creditors, shareholders, and employees

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Conservation

- SCE has several energy conservation and load management programs
- These efforts have been identified as having enabled the State of California to avert firm load interruptions on multiple occasions
- Governor Gray Davis has recently expanded many conservation programs (approximately \$800 million in funding) targeting residential, commercial, industrial, and agricultural customers
 - We encourage you to work with your assigned SCE account management team

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The Broken Power Market's Implications for Federal Customers

- ♦ Temporary Reduction in services
 - -No new project financing
- ◆ Rate increases
- ♦ Suspension of Direct Access

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What Should Energy Managers be Doing?

- Adjust consumption to price signals as much as possible
- Participate in Utility and/or ISO sponsored load management programs:
 - Demand Responsiveness
 - Voluntary Power Reduction Credit
 - Other Programs may become available this summer
- ♦ Continue working with utilities to develop and implement DSM programs

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Helpful Websites

- ♦ Southern California Edison
 - www.sce.com
- ◆ California ISO
 - www.caiso.com
- ◆ California Power Exchange
 - www.calpx.com
- ♦ California Public Utility Commission
 - www.cpuc.ca.gov
- ◆ California Energy Commission
 - www.energy.ca.gov

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